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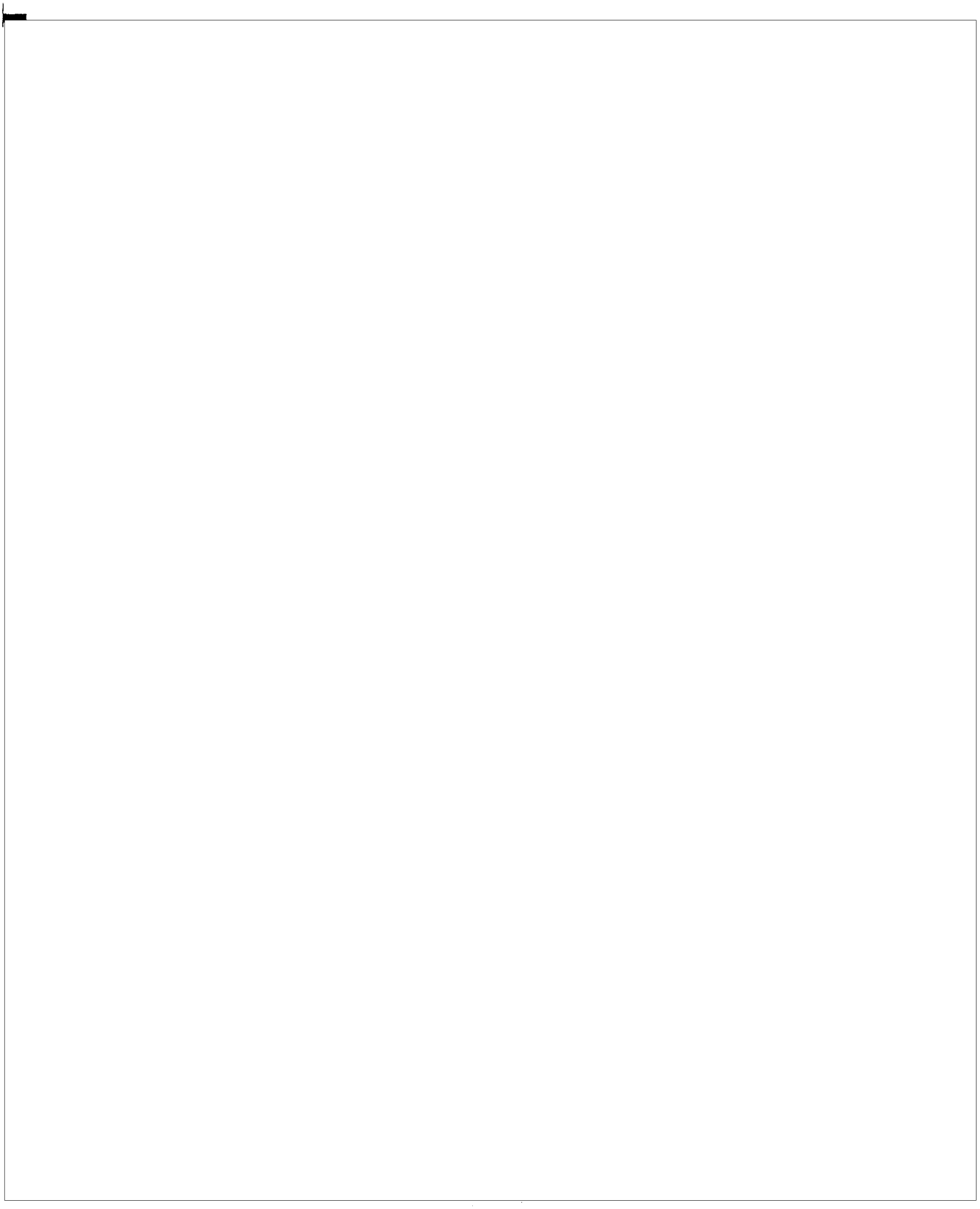

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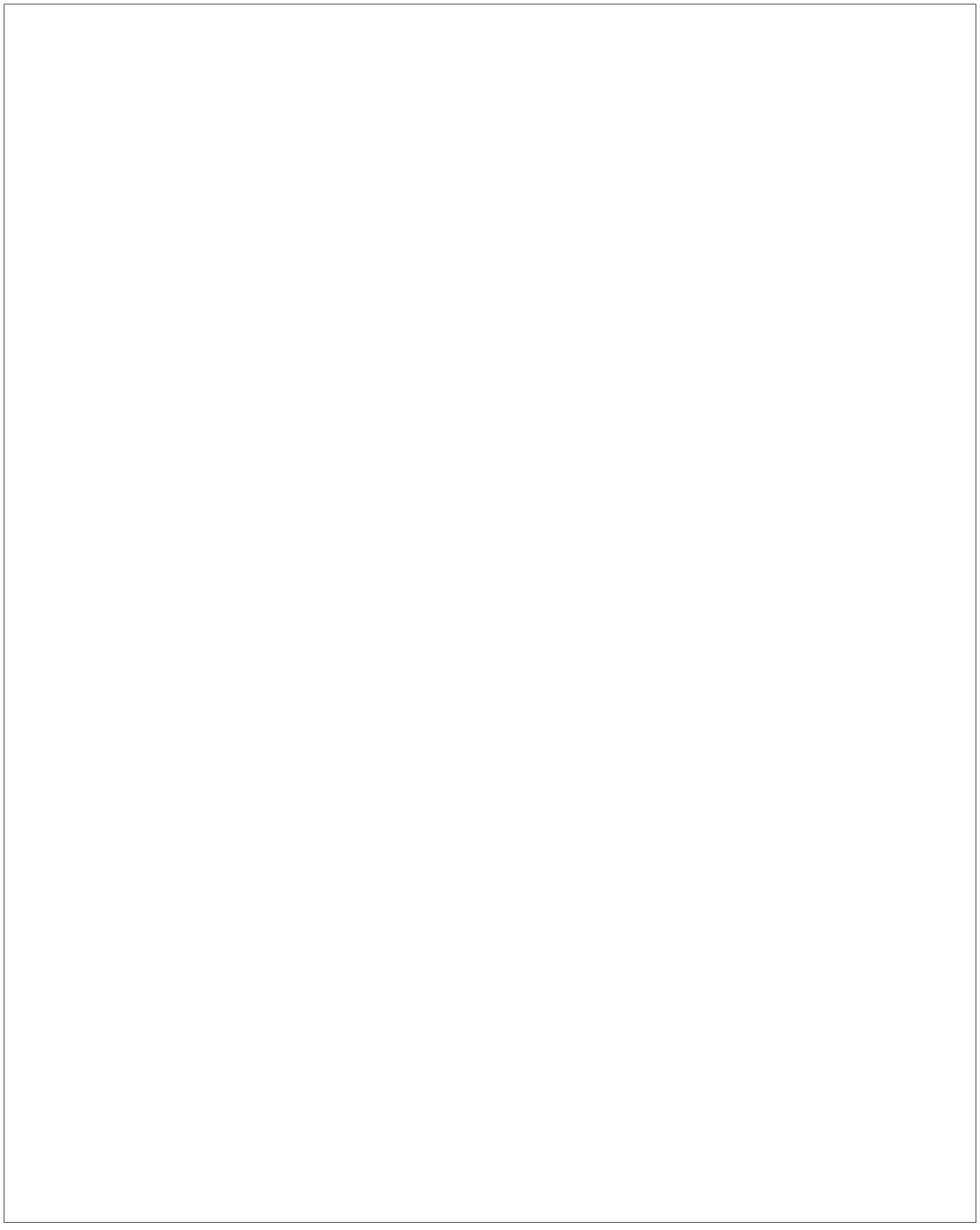

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The Splintering of Solidarity

The formation of pro-Walesa and pro-Mazowiecki groups probably is not the end of the political evolution of Solidarity:

— The Mazowiecki camp is full of intellectuals of varying ideological persuasions united in large part by fear that Walesa and his aides might undo not only Warsaw's economic reforms but Poland's young democracy as well. They may not be able to hold together and organize a viable political movement.

— The Peasants Party may not be firmly in Walesa's corner. Although many farm leaders share his conservative views, some have warned that he is merely interested in using the party as a tool in his struggle with Mazowiecki. Walesa's major base remains among workers, whose interests conflict with those of farmers on such issues as food prices.

In time, regional tensions will complicate relations in both factions. Walesa benefits from resentment of domination by "the Warsaw elite" in outlying areas of Poland, but similar sentiments directed at "the Gdansk crowd" probably will arise within his own camp.

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POLAND: **Solidarity Showdown Looming**

The duel between rival Solidarity factions, one coalescing behind union chief Lech Walesa and the other behind Prime Minister Mazowiecki, may reach flashpoint in meetings of several Solidarity-linked Citizens' Committees that begin Sunday.

Walesa met Tuesday with officials of the Peasants and Democratic parties—Solidarity's coalition partners in the legislature—and attacked the government's farm policies. Meanwhile, leaders of the Center Accord, a group formed by Walesa aides to promote his presidential bid, are scouring the country seeking support from local Solidarity unions. The national Citizens' Committee—heavily influenced by Walesa—will meet Sunday, and Walesa's backers will contest efforts by the Mazowiecki supporters to disband the group.

Pro-Mazowiecki members of the largely autonomous regional Citizens' Committees have called for a meeting of regional leaders on 1 July to create a federation in order to build support for the government. In an effort to preempt this move, Walesa on Wednesday questioned the legitimacy of the meeting and called for the regional chiefs to meet with him a day earlier.

Comment: The political breakup of Solidarity was inevitable once the Communist regime collapsed, but the government hoped to maintain a modicum of unity until its economic restructuring program is more firmly in place. Walesa's maneuvering, particularly his meetings with Solidarity's coalition partners in the legislature, threatens the government's ability to maintain a majority without relying on former Communists. Mazowiecki almost certainly would refuse to remain in office on such a basis, precipitating a government crisis and legislative elections.

A compromise is possible although increasingly difficult to reach as the factions harden. Mazowiecki might support Walesa for president in the hope that, as president, Walesa would restrain his criticism. Walesa might prefer this option to a full-scale battle because polls indicate he continues to trail Mazowiecki in popularity.

Such a gambit, however, probably would do no more than delay the showdown. Walesa, unlike President Jaruzelski, probably will not be content with merely supporting policies Mazowiecki's government develops and probably would press for easing austerity and accelerating moves against remaining Communist-era officials.

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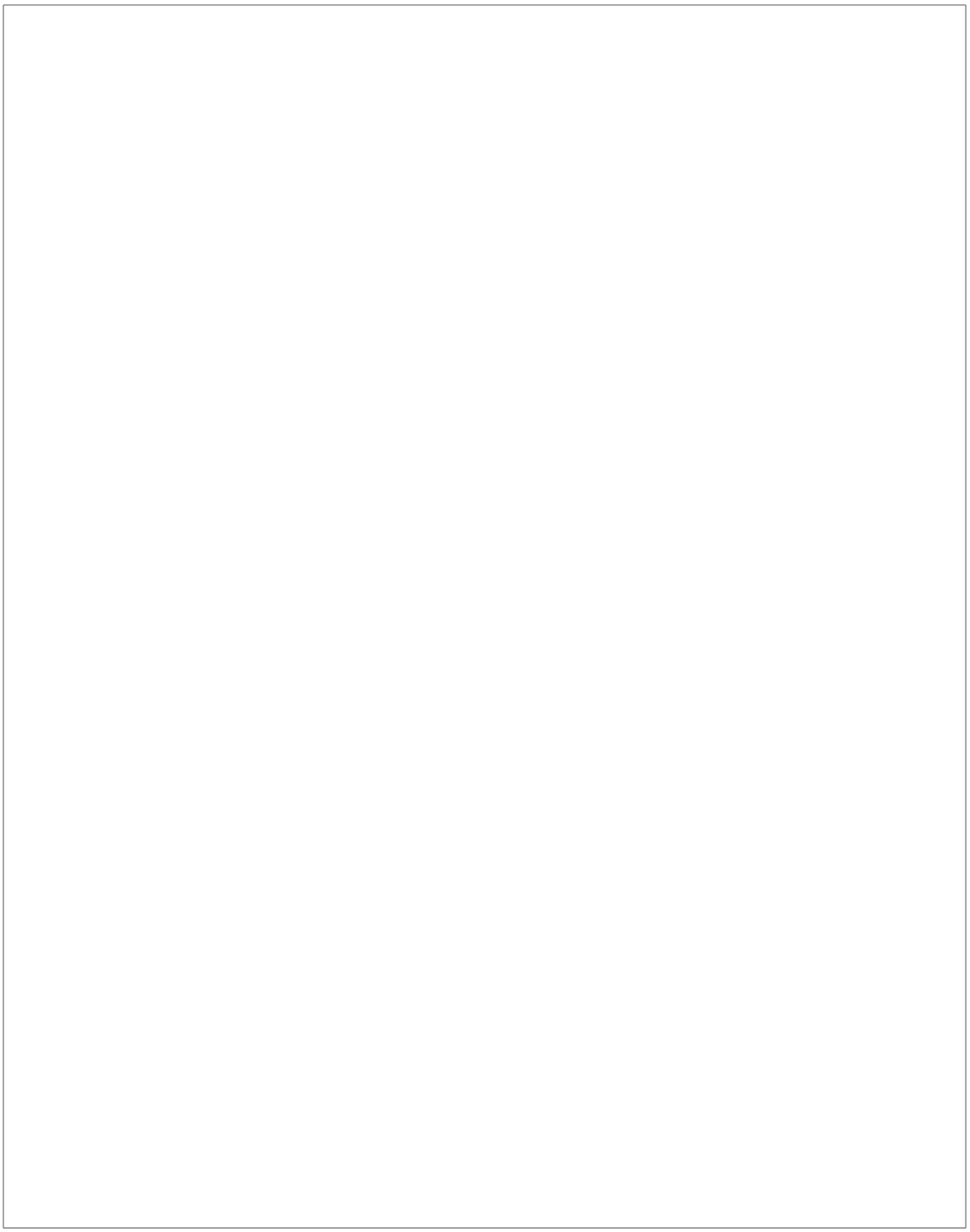

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European Monetary Union on the Way

Most EC member nations hope the December conference on monetary union will lead to the creation, in this decade, of an independent EC central bank modeled after the German Bundesbank and the US Federal Reserve. Growing acceptance of the Bundesbank's low-inflation policy and a desire to have a voice in shaping monetary policy—dominated by the Bundesbank under the current EC system of linked exchange rates—have helped turn the tide in favor of monetary union. German unification has also improved its prospects as France and other members have seen in monetary union an opportunity to integrate Germany more fully with the rest of the Community.

Prime Minister Thatcher hopes London's recent alternative proposal for a European currency to compete with national currencies will refurbish her European credentials and give her greater leverage to slow progress toward monetary union. Although the proposal softens the UK's opposition to monetary union, other members probably will reject it as too minimalist, expecting that London will ultimately agree to an EC central bank to retain some influence in EC affairs.

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EC: **Preview of Dublin Summit**

EC leaders meeting Monday and Tuesday will demonstrate considerable cohesion and initiative on a range of economic and political issues, although the smaller states probably will press for a greater voice in matters to be discussed at the G-7 summit in Houston next month.

The main item of business of the semiannual summit will be the authorization of constitutional conferences to strengthen EC institutions. The leaders reportedly will scale back goals for the December conference on institutional reform, once billed as leading to political union. Instead it will focus on improved foreign policy coordination and more efficient EC decisionmaking. The leaders will reiterate their intention to conclude by July 1991 a second conference on setting up an EC monetary union.

Comment: The small states are likely to press for EC positions on issues to be raised in Houston, including aid to the USSR. A consensus on aid is unlikely because Paris, Bonn, and other advocates of economic assistance disagree with the UK, which believes aid would be wasted without further Soviet economic reforms.

EC leaders almost certainly will retain sanctions against South Africa for now, but the UK, the Netherlands, and Portugal will call for a strong gesture of support for President de Klerk, whose tour of Western Europe last month helped dispel official hostility to his government. The summit may agree to a phased removal of bans in response to tangible reforms by Pretoria.

The summit is likely to adopt a declaration on the environment calling for ending the use of chlorofluorocarbons by 2000 and accepting the threat of global warming as a scientific fact without setting targets for the stabilization or reduction of carbon dioxide emissions.

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Separatist Actions by Soviet Republic Legislatures

Azerbaijan	Declares sovereignty, putting all domestic and foreign policy issues under Azerbaijan's control, 19 September 1989.
Armenia	Follows Azerbaijan's lead on 21 October.
Georgia	On 2 December puts all domestic and foreign policy under Georgian control; says Georgia will automatically become independent if any of its laws is declared unconstitutional by central government.
Lithuania	Asserts de jure independence on 11 March 1990; declares no other state constitution has jurisdiction in Lithuania.
Estonia	Asserts de jure independence on 30 March; declares Soviet state power in Estonia illegal. Temporary procedures for rule during transition to de facto independence to be developed by republic parliament.
Latvia	Asserts de jure independence on 4 May; allows Soviet laws to remain in force as long as they do not contradict Latvian constitutional articles.
Russia	Declares sovereignty on 12 June, establishing precedence for republic laws over national; reiterates right of the republic to secede but states its intention to remain in a federated union.
Uzbekistan	On 20 June puts all domestic and foreign policy under Uzbekistan's authority.

USSR: Moscow Losing Ground on Republic Sovereignty

Recent legislation has given the Soviet republics greater control over their economic and political affairs. After the Russian Republic declared its sovereignty last week, President Gorbachev reportedly told Baltic officials he is prepared to accept a confederated USSR with "comparatively free ties." On Wednesday representatives from the republics began drafting a union treaty redefining relations between the republics and the center. This week Uzbekistan became the eighth republic to declare that its laws supersede those of the USSR; the Georgian legislature has begun talks on independence; and the Ukrainian legislature is discussing draft sovereignty legislation.

Comment: These moves by the republics to orchestrate their own future status, in the face of Moscow's economic sanctions against Lithuania and threat to use them against other republics, severely test Gorbachev's ability to slow the disintegration of the union. Moscow's bid to grant the republics greater sovereignty is unlikely to contain secessionist pressures. Gorbachev's recent statements are broad enough to allow for major change in the nature of the union, but he clearly has in mind a union treaty based on negotiated agreements between the center and the republics. The increasing number of republic independence and sovereignty declarations and the strength of the republic legislatures' support for them, however, make it virtually impossible for him to prevent their enforcement. Uzbekistan's declaration of sovereignty most likely will encourage other Central Asian republics to follow suit.

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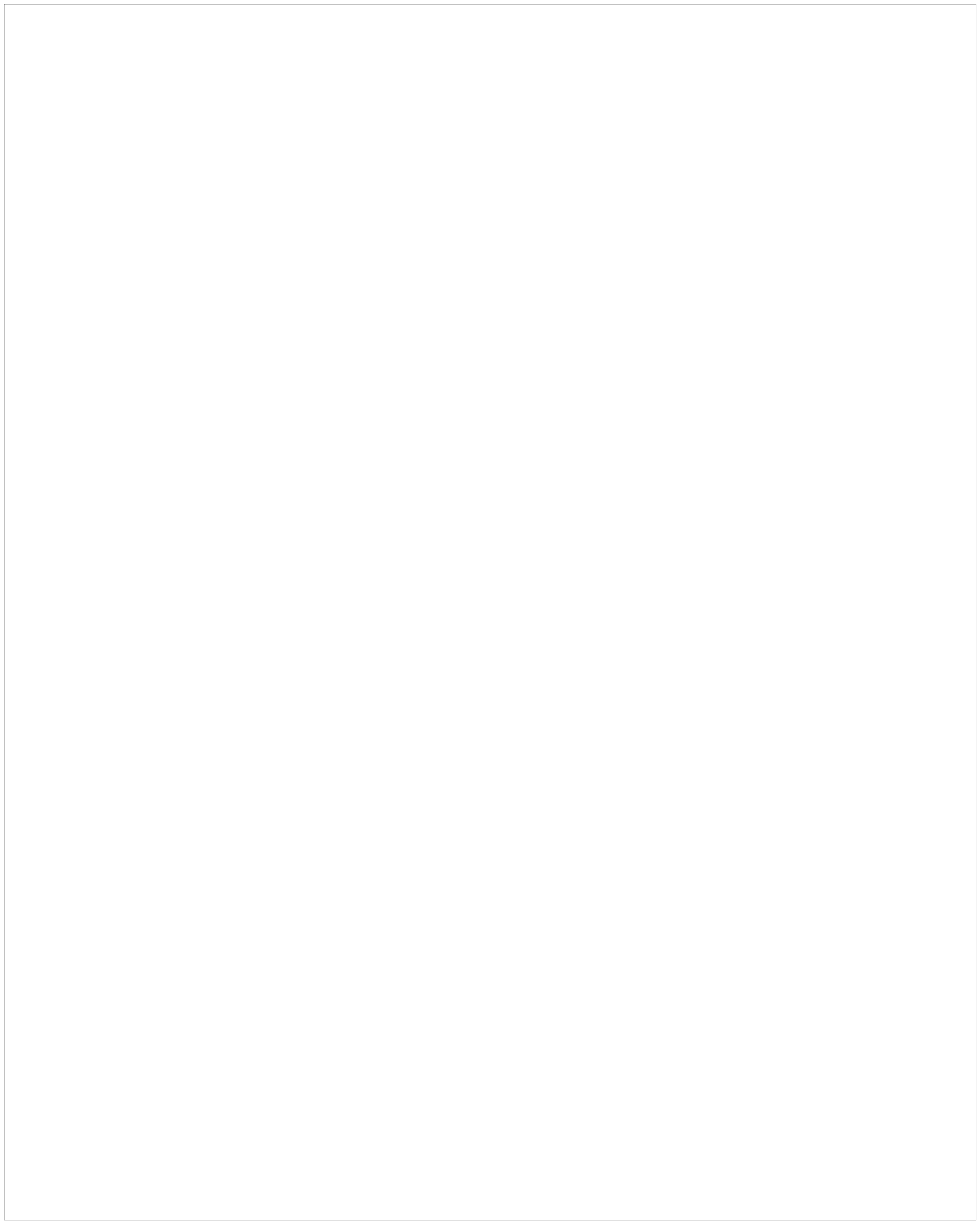

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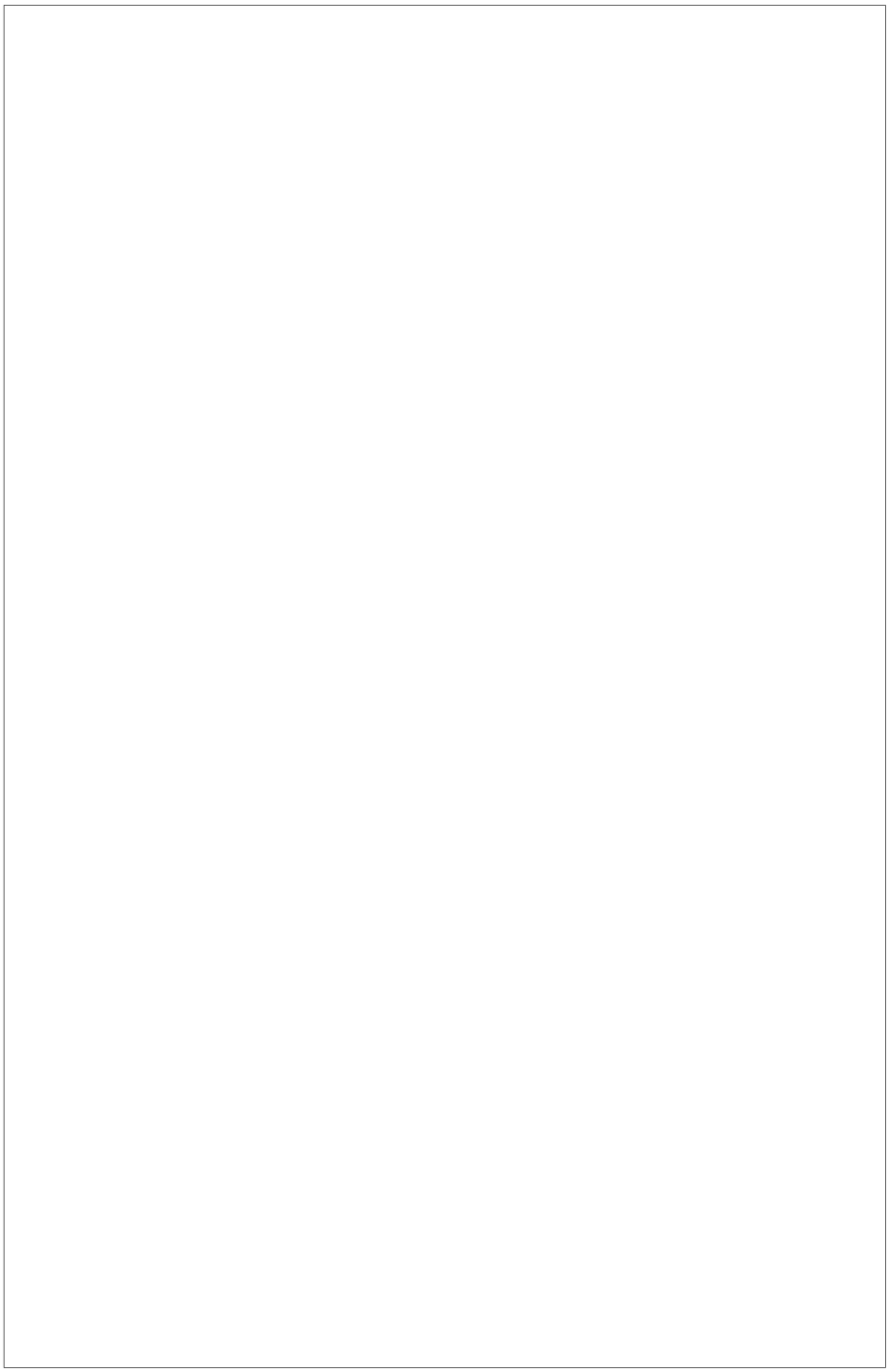

GERMANYS: Making Progress on All-German Election

Chances are growing that an all-German election and full political unity will occur this December, but Chancellor Kohl is risking controversy by suggesting election rules that favor his Christian Democrats. Kohl's Christian Democrats and their East German counterparts this week agreed to seek elections for an all-German parliament on 2 or 9 December. Under the scheme East Germany would accede to West Germany under Article 23 of Bonn's Constitution immediately after the vote. Each Germany would follow its own electoral law; East Germany would set the electoral threshold for legislative representation at 3 percent, but West Germany would still use 5 percent.

Comment: Kohl is determined to achieve political union and reelection this year and, coming on the eve of today's two-plus-four talks, to press Moscow harder to accept German membership in NATO and abandon Four-Power rights. The proposal for a 3-percent hurdle would help the conservative German Social Union and reduce Social Democratic representation by letting small East German leftist parties enter the Bundestag. Social Democrats almost certainly will resist the low representation threshold, and the Free Democrats argue that a 5-percent threshold in an all-German count would exclude the "new-model" Communists.

HUNGARY: Debate Over Presidential Referendum

A debate over how to elect the president is posing the first challenge to Prime Minister Antal's coalition government. Zoltan Kiraly, an independent deputy who reportedly has the backing of the Socialist Party (the former Communist party), has collected the 100,000 signatures required to force a national referendum on whether the president will be elected by popular vote or by the legislature. An outcome favoring direct election could undercut an arrangement Antal made with the opposition Free Democrats that would have the legislature confirm Free Democrat Arpad Goncz, now Acting President, in office after passing a constitutional amendment. Direct election probably would increase the chances of the Socialists' popular leader, Imry Poszgay, or even the erratic Kiraly.

Comment: The Socialists view the issue of direct election as their best vehicle to recapture a leading role in Hungarian politics. Both Democratic Forum and the Free Democrats favor a president chosen by the assembly, in part because they see displaying effectiveness as parties in the legislature as a tool to win voter loyalty. The assembly has already rejected a compromise that would permit Goncz to serve two years before holding the referendum. The government probably will bow to popular sentiment and hold the vote, perhaps after local elections this fall.

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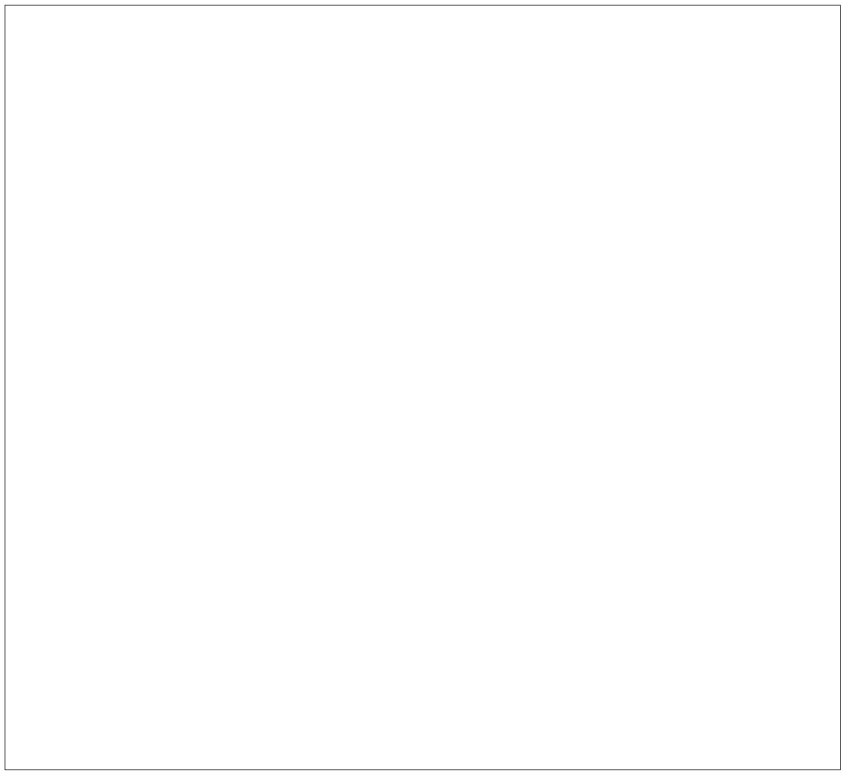

SRI LANKA: Government Regaining Control

The Army has regained control over most of the eastern part of the country, but Tamil militants are continuing attacks on several Army positions in the north, according to press accounts. Colombo has asked foreign countries for humanitarian relief for some 100,000 refugees. The government has rounded up thousands of Tamil youths in the capital area,

The Tamil Nadu state government in southern India detained some 1,000 Tamil militants after the recent massacre there of 14 moderate Sri Lankan Tamil leaders by suspected Tigers,

Comment: The Army may have difficulty regaining control of the north, long a Tiger stronghold, but probably will capture most key guerrilla positions. Sporadic fighting and landmines could complicate the efforts of relief workers. Violence is likely to continue in southern India as the government moves against Tiger operations.

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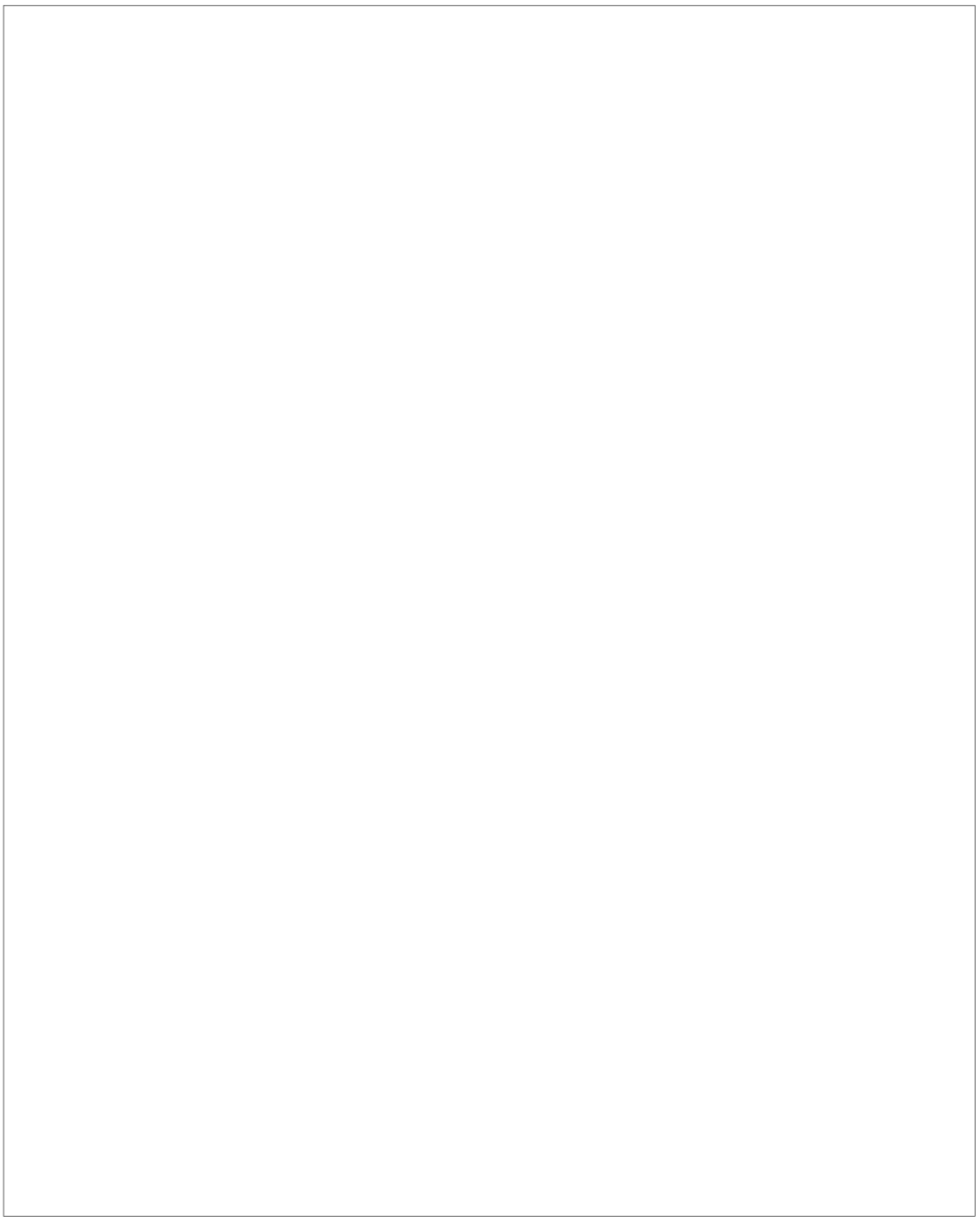

USSR: Paper Shortages Spur Charges of Censorship

Progressive journalists are claiming the regime is manipulating newsprint shortages at their expense. Last Saturday the newspaper of Komsomol, the party youth organization, charged that central authorities may be using shortages instead of traditional censorship. Last month the reformist journal *Noviy Mir* said it was being subjected to "the worst discrimination" and effectively closed down. Meanwhile, *Pravda* recently announced a cutback from an eight- to a six-page format and noted that early this month five newspapers, including the traditionalist *Rabochaya Tribuna* and *Sovetskaya Rossiya*, were not published in 17 cities. At the same time, however, the Central Committee has launched a new magazine to publicize party activities.

Comment: A lack of circulation data makes it difficult to verify whether the shortages are politically manipulated. *Pravda*'s announcement is probably an effort to demonstrate that papers across the political spectrum are affected. The launching of the new party magazine shows the party is still exercising its power to influence political debate by allocating newsprint, despite the passage of a new press law prohibiting censorship.

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In Brief

USSR

— Seven candidates—most regional party officials—vying to head new Russian Communist party in **USSR** . . . Premier Ryzhkov, other national figures nominated but withdrew . . . vote expected today, but runoff likely, possibly with more candidates.

Europe

— Nationalist resurgence continues in **Yugoslavia** . . . ultranationalist Serbian Renewal Movement splitting as extremist Serb Chetnik Movement forms . . . Serbian Communists likely to cite rightwing extremism to delay Serbian reform.

— Polls indicate **Spanish** Prime Minister Gonzalez's Socialist Party will retain narrow majority in Andalusian stronghold tomorrow . . . key test of political damage from influence-peddling scandal . . . populist regional party mounting strong challenge.

Americas

— Gunmen yesterday killed labor leader, wounded member of **Haiti**'s cogoverning State Council . . . probably rightist-backed . . . Council leader plans moderate response to protect elections . . . some politicians will insist on delay pending purge of extremists.

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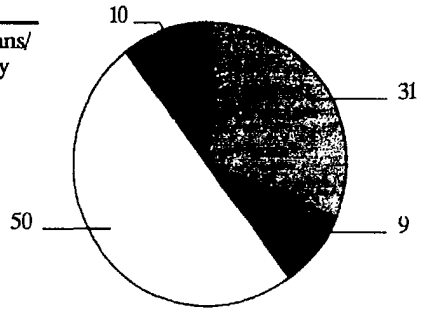
Breakdown of G-24 Assistance to Poland and Hungary

Percent

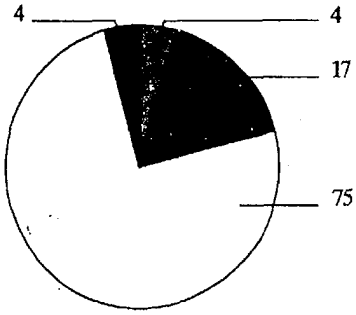
Grants and subsidized loans/ requiring budgetary outlay

Total: $2.3 billion



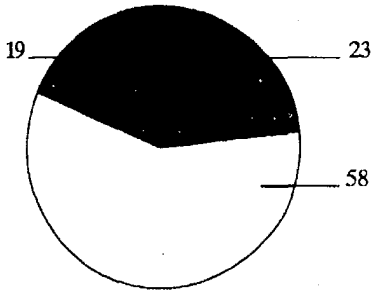
Loan guarantees/ no budgetary outlay

Total: $4.3 billion



Loans/ no budgetary outlay

Total: $5.6 billion



US Japan EC & members Other

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Special Analysis

EASTERN EUROPE:

West European and Japanese Aid

West European and Japanese leaders will argue at the Houston summit next month that they are already generously assisting reforming East European countries, but their reliance on export-credit guarantees limits actual outlays and lets them maintain aid to longstanding LDC recipients.

Over the past year, G-7 summit partners have opted for high-profile but low-cost aid to Eastern Europe. The EC and its member states have promised a total of nearly $8 billion, and Japan has committed more than $2 billion of the $12.2 billion that G-24 countries have pledged to Poland and Hungary since last September. Nonetheless, only about 10 percent of the Japanese and 15 percent of all European aid entail direct budget outlays for grants and concessional loans. The rest is largely guarantees of trade and investment loans, provisions that actually cost donor governments money only in the event of default. By contrast, nearly 80 percent of US assistance totaling $935 million involves grants.

The comparatively small grant component of West European and Japanese aid suggests the East European economies have not yet obtained substantial benefits from the G-24 program. Most food and other emergency aid has been disbursed, but it accounts for less than 5 percent of the pledges. Only a small portion of the export-credit guarantees have been activated because East European and Western partners need time to identify appropriate projects and joint ventures, although more undoubtedly will be used in the coming year. Some may go unclaimed, as lending countries may have tied guarantees to uses of little interest to the potential recipients.

Future West European financial assistance to Eastern Europe, and perhaps eventually the USSR, probably will be primarily in the form of export credits. The EC has proposed increasing its budget outlays for Eastern Europe to $1.2 billion by 1992—twice this year's projected level—to permit grants to Bulgaria, Czechoslovakia, Yugoslavia, and other new G-24 beneficiaries. Member states, however, appear unlikely to boost their aid by nearly as much. None has seconded an Italian call to set aside 0.25 percent of GDP—some $10 billion for the Community as a whole—for grants to Eastern Europe. Next year West Germany's aid budget is not expected to keep up with inflation. Discussions among West Europeans on assistance for the USSR focus almost exclusively on export credits, and any increased assistance will continue to entail only limited budgetary costs.

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Likely Debt Initiatives at the Houston Summit

The French and Italians almost certainly will argue for a debt-reduction package to help lower-middle-income LDC debtors and Poland. Former Italian Prime Minister Craxi's efforts on behalf of the UN to come up with a debt proposal show the seriousness the Italians attach to this issue. French President Mitterrand pledged this week to forgive part of the official debt of middle-income African countries, and he may urge his G-7 partners to provide similar relief to other middle-income debtors.

Paris and Rome, however, appear likely to offer different debt-relief proposals. Italian officials favor allowing heavily indebted LDCs with per capita incomes between $500 and $1,300 to repay their debts to governments in local currencies rather than dollars. They argue that even though Polish income levels are well above this range, Warsaw should be given the same option because of the economic "shock treatment" the Mazowiecki government is administering. French financial officials, on the other hand, want different LDC and Polish debt-relief policies.

Donors Not Robbing Peter To Pay Paul

Fears among LDCs that Western assistance for Eastern Europe will be at their expense appear unfounded. Tokyo, for example, has continued to reserve customary grants and concessional loans for LDC recipients and has given East European countries less generous forms of assistance such as export credits and trade insurance. West Germany increased its aid budget by almost $33 million last year to accommodate East European needs rather than divert funds from the LDCs,

Western governments appear unlikely to cut aid to LDCs in the near term, but they probably will attach tougher conditions. Japanese leaders have repeatedly said Asia will continue to receive the bulk of Tokyo's assistance and any funds for Eastern Europe will only be added to existing programs. The multiyear commitment of European aid to longstanding LDC recipients limits EC countries' ability to shift funds. Nonetheless, British Foreign Secretary Hurd recently said that as aid budgets become tighter all recipients will be held to the same political and economic conditions as Eastern Europe.

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The Domestic Debate

Although Japanese leaders are most concerned about the reaction in the US to the winding down of the Cold War, they have also had to respond to questions in Japan about whether the Mutual Security Treaty should be revised or even jettisoned:

— Rightwing nationalists in and out of the LDP are saying the treaty should be abrogated and an independent defense capability created.

— Moderate and leftwing opposition parties are calling for a fresh look at the treaty; the Japan Socialist Party wants to turn it into a peace and friendship treaty.

Prime Minister Kaifu is seeking to deflect these pressures by stressing the treaty's continued relevance; he particularly cites Article II, which enjoins the two allies to enhance their political and economic cooperation. In any case, Japanese leaders can safely disregard the vociferous but politically impotent nationalist fringe. And because the LDP controls the lower house of the Diet, which has full authority over treaties, the opposition parties cannot force the LDP to alter the treaty.

Still, in preparing for the next Midterm Defense Plan, Japanese leaders have felt obliged to make some accommodations to perceptions of a weakened Soviet threat. A few weapons systems with politically controversial offensive potential have been canceled. Japanese leaders have also trimmed projected growth rates in defense spending, even though this move may complicate efforts to respond to US burdensharing requests.

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Special Analysis

JAPAN-US: Alliance Under Stress But Holding

On the eve of the 30th anniversary of the Mutual Security Treaty, Japanese leaders remain convinced strong alliance ties to the US serve Tokyo's interests even as they worry that the end of the Cold War and Japan's emergence as an economic competitor may in the long run weaken the US commitment to the treaty. Tokyo's behavior suggests it does not yet see a need for major policy changes to ease stresses in the alliance.

Japanese leaders see the environment surrounding the US-Japanese alliance as having been shaken in the past several years. The eroding Soviet threat, in their view, is raising questions in both Japan and the US about the basic rationale underlying the treaty. Japan's growing industrial, technological, and financial clout, moreover, is stimulating increased fear and antagonism in the US. Japanese leaders have noted public opinion polls indicating that US trust in Japan is declining and that Japanese economic power is seen as a greater security threat than Soviet military power.

senior bureaucrats and leaders of the ruling Liberal Democratic Party worry that Washington over time will react to these changes in ways that could undermine the alliance. Japanese officials probably believe the reduced Soviet threat will result in even deeper cuts in US forces, worldwide as well as in the Pacific. Press reports indicate they also fear that some US officials intend to focus more on economic security, particularly the challenge posed by Japan.

Continued Utility of the Alliance

Signs of the potential for cracks in the alliance are particularly worrisome to the conservative establishment in Tokyo because it retains a firm conviction that the security tie to the US serves critical Japanese interests. Most important, Japanese leaders remain skeptical about Moscow's long-term intentions and believe the treaty acts as a key deterrent. In addition, they see a solid alliance as important to the success of Japanese policy toward third countries: the treaty helps reassure Asian nations worried about a possible revival of Japanese militarism and strengthens Tokyo's hand when negotiating with the Soviets over Japanese territory they have occupied since 1945.

continued

Japanese leaders also believe the treaty will remain important to economic security, primarily by helping Tokyo save money on defense. Despite their perceptions of changed US attitudes, senior leaders still hope the security tie will help to contain bilateral tensions stemming from Japan's economic success.

Incremental Increases in Support

Although Japanese officials are concerned about the future of the alliance, they are only beginning to make some of the structural changes required to ease bilateral economic friction, for example, by opening their markets to large-scale imports of manufactured products. Instead, they continue offering compensatory gestures in other areas, such as expanded foreign aid, limited concessions on the trade front, and increased subsidies for US forces in Japan.

The inertia in Tokyo probably reflects an assessment that politically painful initiatives to forestall serious trouble with the US would be premature, partly because the West is still sorting out the implications of the end of the Cold War. Moreover, established economic policies have been immensely successful and have a great deal of momentum behind them. In addition, Japanese leaders may well believe the most senior US decisionmakers still value the treaty and will work to resolve frictions in a way that protects the alliance

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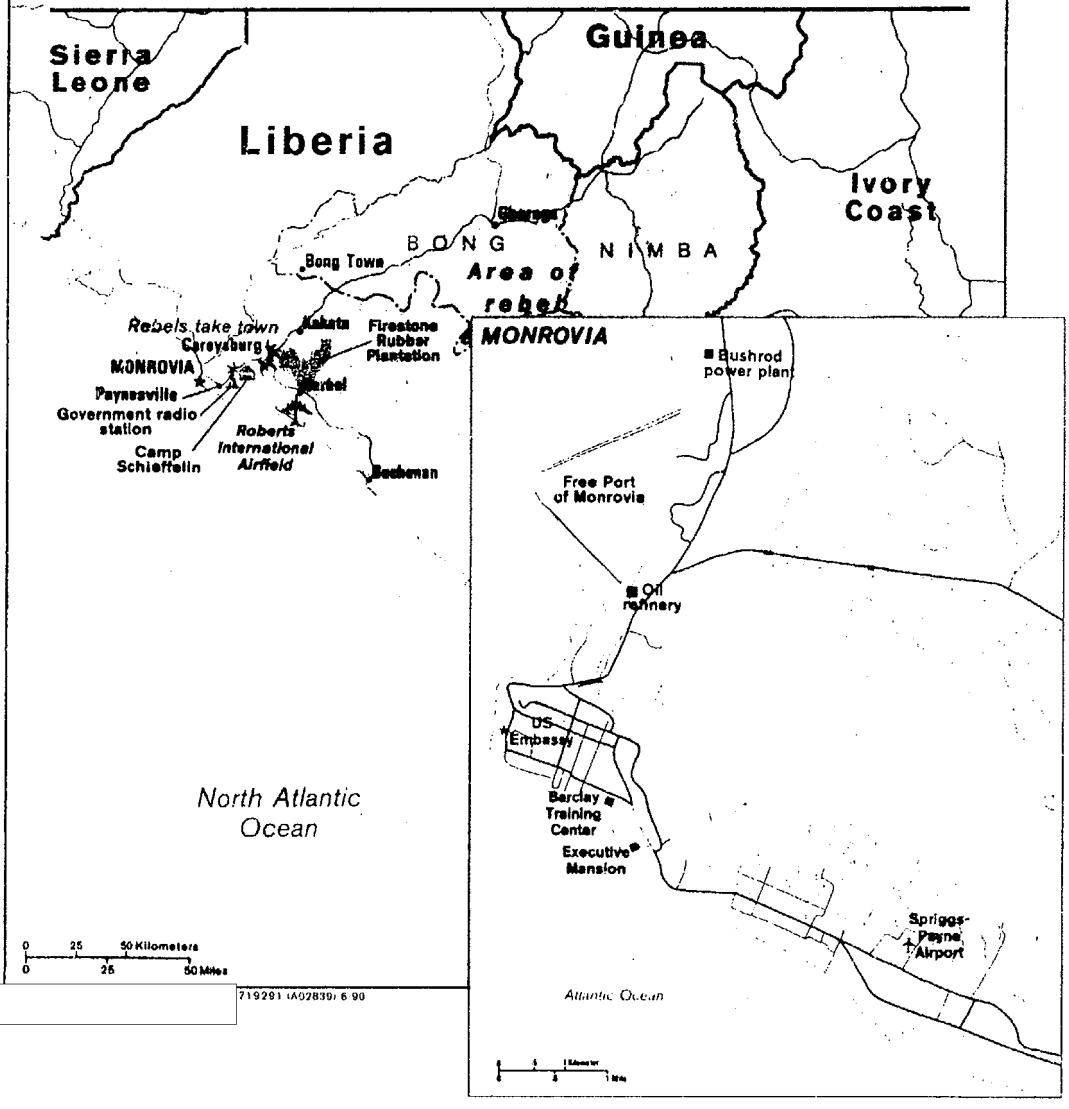
Military Situation, 21 June 1990

Chaos Likely To Ensue in Monrovia

The lack of an extensive tactical communications system and indiscipline among new recruits will make it increasingly difficult for the rebel leadership to control and coordinate operations as the insurgents enter the capital. Rebels probably will engage in atrocities against Krahns and Mandingos as well as random looting and killing. If Doe decides to hold out at the Executive Mansion and a pitched battle occurs, a high level of damage is almost certain. There probably will be a lengthy period of chaos; tribal killings and retributions are likely to continue as the rebels avenge army atrocities against their Gio and Mano ethnic kinsmen.



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22 June 1990

Special Analysis

LIBERIA: **Monrovia Likely To Fall Slowly**

The rebels' takeover of Careysburg yesterday presages their offensive to take Monrovia, but they probably will continue approaching targets cautiously and may spend several weeks trying to wear down the army and force President Doe's departure.

The insurgents probably have 1,500 to 2,000 troops along the Firestone–Kakata–Bong Town axis outside the capital. heavy rebel traffic between Gbarnga and Monrovia this week, indicating some of the estimated 3,000 rebel troops in Bong and Nimba Counties probably are moving toward the capital, but logistic and command difficulties are likely to slow them.

The army's fighting capacity continues to decline, even though the recent lull apparently has temporarily boosted the troops' morale, and they may offer sporadic resistance. Of the nearly 2,800 soldiers in the capital, only 750 are expected to fight; of them, 500 are likely to remain on guard at the Executive Mansion. Even these elite troops may scatter if their commanders flee,

Rebel leader Charles Taylor probably feels compelled to make good his boast last week to take Monrovia in 24 hours if the peace talks set to resume on Monday in Sierra Leone break down. His troops reportedly are eager to push on. Taylor probably will attack lightly defended intermediate targets such as Careysburg while moving forward reserve troops from Nimba County. Potential targets on Monrovia's outskirts include Camp Schieffelin, Paynesville, and the government's radio station. Schieffelin and Paynesville have less than 125 and 90 troops, respectively, and the radio station probably is lightly guarded.

The rebels probably realize they lack the discipline and troop strength for a conventional attack against large armed contingents at the Executive Mansion, Barclay Training Center, or the Coast Guard base in Monrovia's Free Port. Instead they are likely to approach the capital in small groups from Firestone in the east, Careysburg in the northeast, and Bong Town in the northwest.

The insurgents probably can move fairly easily into the outskirts, where they can successfully engage any army contingent that comes out to oppose them. the insurgents have infiltrated the capital and probably have laid much of the groundwork for the main forces. They probably count on scoring psychological victories by capturing key installations—the port, oil refinery, and electric company.